THE ABSURDITY OF THE NATIONAL DEBT*

*[A pamphlet issued in the UK post-decimalisation based on that originally published by the Duke of Bedford in 1947.]

It is a remarkable proof of the ignorance of politicians in regard to matters of finance and, in consequence, of their unfitness to play the important part which of necessity they do in the conduct of the nation's affairs, that neither the Conservatives, Labour nor Liberal Parties have ever made any important statement of a policy in connection with the National Debt, nor shown the slightest indication that they realise that it is desirable to do anything about it.

How it Started!

The National Debt started in 1694, when the Government of the day unwisely arranged that a private syndicate, which later became known as the "Bank of England', should lend it £1,200,000 in gold, at 8 % interest. With even greater stupidity, they then allowed the syndicate to issue bank notes to the value of £1,200,000, which it was able to lend into circulation, charging interest. Thus, although the Bank of England was not put to any expense beyond the cost of the paper and printing, it was allowed to draw interest on two lots of money—its own gold and the new notes to the value of the gold! Later, the Bank of England managed to obtain still more gold which they also lent to the Government at interest and, whenever they did so, they increased their issue of virtually costless paper money until they were getting interest on £16 millions in gold and £16 millions in paper notes. If the Government had done the obviously sensible thing and, instead of borrowing, had decided to issue its own paper money, it could likewise have done so at the mere cost of paper and printing; there would have been no need for interest to be paid to anybody; and the taxpayer would not have been burdened to provide interest.

As time went on, the Bank of England increased the amount of the paper money it created over and above the amount of gold it held until it was soon lending out in notes nearly ten times the value of its gold holdings.

During the first half of the 19th century the Commercial Banks invented and began to use "cheque" money because they were stopped [from] printing their own notes. This new kind of money did not exist even in the form of paper notes, but was brought into being by the simple process, either of entering in bank books the figures recording the granting of loans; or of filling-in cheques to enable the banks to buy themselves Securities. These cheques, it is important to note, did not, like a private individual's cheque, draw on and transfer money already in existence; they created new money to the value of the figures written upon them.

"Further, I agree with him (C. H. Douglas) that banks create money, and that trade depression arises from faults in the banking system in the discharge of that vital function."

Sir Ralph Hawtrey, Assistant Secretary to the Treasury in a B B C broadcast March 22nd, 1933.

In war, it is not only essential to have money to carry on the war effort, but when the nation is making and using vast quantities of war materials which are going to be thrown away, and when the labour force has little food and very little else on which to spend its high wages, a vast inflation takes place.

In the 1914-18 war it was easy for the banks to *create* vast sums of money and either "lend" it to the Government or allow their wealthy customers to buy War Loan with it and share the interest in the ratio of Banks 4 % to Nominees 1 %.

Naturally, the value of the £ dropped, and in 4 years it had fallen to exactly a half.

In 1914 the National Debt was £700 millions.

In 1920 it was £7,000 millions and the banks held approximately 90% of the War Loan. They made frenzied efforts to sell the War Loan they held, to cancel the debt against themselves, but ten years later they still held, and were drawing all the interest on, 70% of it.

The vast sums paid to the banks at this time precipitated the industrial crisis of the early 1930s.

"In the years following the First World War the country was paying large sums of interest to the banks, either directly as interest or indirectly as taxes to pay the interest on Government loans. This meant that people had less money to spend. The home market began to suffer, factories went on short time and unemployment began to rise. Bankers appeared to be overwhelmed by the vast sums pouring in. They talked freely about the problem in private, and hesitated to increase their dividends when so many people were suffering hardships.

Eventually they decided on a course of action which they hoped would put everything right without attracting too much attention. They began to buy up building sites in every town in the country, selecting the best they could find, usually on corners. They built innumerable new branches and palatial head offices in the City. But building new banks was hardly the best or the quickest way to get the money back into the pockets of the people who had parted with it. Unemployment continued to rise until in 1930 it reached nearly 3 millions".

Money the Decisive Factor, Allhusen and Holloway, 1959.

In 1934-5 Total Receipts from Income Tax were £229,214,963.

Interest on the National Debt paid in that year was £211,657,232.

In 1935-6 Income Tax Receipts were £237,362,332 and the interest on the National Debt was £211,533,776.

In those two years out of Income Taxes of £466 millions only £43 millions were available to Government for the many services required by the taxpayers.

Moreover, nearly 70% of the National Debt was created by and held by. the Banks.

World War II was a 3% war, and the Chancellor relied more on revenue than in any previous war: 40% in 1940, 55% in 1944; 52% over the war as a whole. "By *a* cheap money policy the Government prevented the public debt service from becoming a ball and chain at the ankle of the post war economy".

Walter M. Stern, *Britain Yesterday and Today.*

Yet the ball and chain are still with us; we are still paying interest on money *created* for the Napoleonic Wars, the Crimean War. the Boer War and the two World Wars. And if a Chancellor could weather the greatest of all wars at 3%, why do we now have a 12% peace?

The National Debt remained static from 1919 to 1939 at around £7,000 millions. Thanks to the last war and Government "borrowing" of created money, it now stands at £35,000 millions, and **the annual interest alone is now more than 1,000 times the original debt!** [1935]

If the question be asked, "What shall be done in order to put a*n* end to the National Debt and all its attendant evils?" the answer is not very difficult.

In the first place, a clear distinction should be drawn between those who have bought their holdings of the National Debt with money they have saved, earned, inherited, or otherwise normally acquired; and those who have bought their holdings with newly-created money, i.e., the banks and those bankers' nominees who have been granted bank loans wherewith to make their purchases. Banks should be ordered to sell their holdings or Government Securities to the State, which, as a matter of book-keeping, would pay them with newly-created non-debt money. This money, in accordance with existing banking practice, the banks would then be required to destroy, for, just as under the present system they create new money when making loans or buying Securities, so do they destroy money when they receive repayment of the principal of loans or sell Securities, keeping only the interest for themselves.

If this action were taken, a part of the National Debt would be wiped out immediately, without any risk of inflation.

No injustice would have been inflicted even on the banks for they have already done extremely well out of the interest received in the past from Government Securities which were purchased neither with their depositors' money nor with money they had to save or earn.

With regard to bankers' nominees, i.e., those to whom the banks have lent newly-created money to enable them to buy Government Securities, these, if they should still exist, should be dealt with in a rather similar way. The banks should be directed to call in their loans made to these nominees. The Government would then give the nominees newly-created, non-debt money to enable them to make the repayment, and the banks, on receipt of this money, would, again in accordance with present practice, cancel and destroy it.

There would remain only that part of the National Debt purchased by private individuals, organisations, etc., with money already in existence and obtained in a normal manner. These persons should be paid the full value of their holdings with newly-created non-debt money, as rapidly as could be arranged without risk of inflation, and they could then spend the money so received or invest it in Industry. It might be found possible and desirable to speed up this process by granting fewer bank loans during the period when it was carried out. The less money created by bank loans, the more can safely be created for other purposes.

If the question now be asked, "How can the Government obtain the money which it formerly got by borrowing at interest?" the answer is very simple. It can direct the banks to create it *not* in the form of interest-bearing debt, and it can use anti-inflation taxation to collect, from time to time just as much of that money as may be necessary to prevent an excess from remaining in circulation beyond the total of goods and services available to be bought with it.

Money, it must never be forgotten, derives its value from the presence in the country of an adequate backing of goods and services. It does NOT derive any value from the fact that it was first created as interest-bearing debt. or. indeed, debt of any kind

According to Gibbon, the Decline and Fall of the Roman Empire was caused by the twin evils of inflation and a permissive Society.

These two phenomena are marching in step today, and in a few years it will be 1984.

Reprinted from "Abundance". Quarterly Journal of the New Economics.
Obtainable from The Social Credit Centre, Montagu Chambers, Mexborough, South Yorks.

Printed by Joseph Ward & Co. (Printers) Ltd., Wesley Place, Wellington Road, Dewsbury & Published by the Social Credit Co-ordinating Centre, Montagu Chambers. Mexborough, South Yorkshire, England.